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C O N F I D E N T I A L SECTION 01 OF 03 BUENOS AIRES 002059

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PASS FED BOARD OF GOVERNORS FOR RANDALL KROZNER, PATRICE
ROBITAILLE

PASS EXIM BANK FOR MICHELE WILKINS

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SUBJECT: REDUCED EXPECTATIONS: ARGENTINA SEEKS LOW PROFILE
AT IMF/WORLD BANK ANNUAL MEETINGS

REF: BUENOS AIRES 1809

Classified By: Economic Officer Chris Landberg for Reasons 1.4 (b,d)

Summary

¶1. (C) The GoA delegation to the annual IMF/World Bank meetings, led by Economy Minister Miguel Peirano and Central Bank President Martin Redrado, will arrive in Washington under instructions from President Kirchner not to say or do anything controversial, given the proximity of Argentina's October 28 presidential elections. Peirano and Redrado will participate in debates on IMF reforms, and Peirano said he looks forward to joining the regional meeting organized by Treasury, but they will otherwise limit their engagement on sensitive Argentine-related issues. There are signs of a possible thaw in GoA-IMF relations, and GoA officials continue to indicate interest in moving forward Paris Club negotiations. The Economic Ministry is also quietly exploring the possibility of resuming World Bank budget support adjustment lending under an IMF endorsement Nevertheless, Peirano and Redrado will limit their engagement on these and other potentially controversial issues. Both indicated, however, that they look forward to meeting their USG counterparts. End Summary.

GoA Delegation's Objective: Lay Low

¶2. (C) Minister of Economy and Production Miguel Peirano and Central Bank President Martin Redrado arrive Washington for the October 20-22 annual IMF/World Bank meetings under explicit instructions from Argentine President Nestor Kirchner to maintain a low profile prior to the October 28 presidential elections. According to Economy Ministry contacts, Kirchner instructed Peirano that he wants "no movement on any issue," including on Paris Club, prior to the elections.

¶3. (C) Peirano asked Ambassador October 17 to pass the message to Washington that he looks forward to meeting USG officials, and hopes to develop constructive relationships with them for the work that lies ahead. He is pleased to have been invited to participate in the regional Finance Ministers' meeting with Treasury Secretary Paulson on October 20. However, he emphasized that he will have to avoid

discussion during this trip of difficult or potentially controversial issues (i.e., Paris Club, bond holdouts). His main concern is to avoid saying or doing anything that creates headlines back in Buenos Aires, just days before elections.

¶ 14. (C) Redrado gave the same message to Ambassador on October 16, commenting that he and Peirano will keep Argentina "low on the radar screen." Redrado added that the word from on high was to "keep our teeth tightly locked until the 29th." He said the Argentine delegation will focus on multilateral and international items, avoiding more controversial bilateral issues. He cited, for example, working on the new mandate and agenda for the new IMF Managing Director and Chair of the IMFC (International Monetary and Financial Committee).

¶ 15. (C) Peirano will speak at the October 20 IMFC meeting on behalf of the southern cone group -- Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay. He will reiterate these countries' support for reforming the IMF quota (voting) structure (including purchasing power parity in the quota calculation and redistributing quota from developed to developing countries). He will also likely call for the approval of the Reserve Augmentation Line (a line of credit of 300 to 500% of a country's quota, with minimal conditionality), and may support other members' recommendations for the IMF to cut costs.

Kirchner Warms to a Strauss-Kahn-led IMF

¶ 16. (C) The Kirchner administration has yet not relinquished its public anti-IMF rhetoric. Indeed, Minister Peirano was

BUENOS AIR 00002059 002 OF 003

mobilized to publicly blast IMF Managing Director Rodrigo De Rato October 16, following De Rato's recent comment that the GoA needed to address the growing inflation problem in Argentina. Cristina Fernandez de Kirchner's presidential campaign is currently running television ads that celebrate the GOA's ability to make the IMF irrelevant in Argentina (kindergarten students are asked what the IMF is and give predictably random answers -- e.g., "a place where there are many animals.") Nevertheless, GoA officials, including President Kirchner, appear to see an opportunity for rapprochement with the IMF after Dominique Strauss-Kahn takes over as Managing Director.

¶ 17. (C) Econ Ministry contacts confirm that Kirchner came away from Strauss-Kahn's early September visit to Argentina (reftel) with the impression that Strauss-Kahn supported the GoA's position on IMF reform and also supported both the creation of the Reserve Augmentation Line and the idea of Argentina's accessing it to clear Paris Club arrears. French Embassy organizers of Strauss-Kahn's visit did not fully corroborate the GoA's version of events -- particularly with regards to the use of the Reserve Augmentation Line to clear Paris Club arrears. Nevertheless, they did confirm the rapport between Kirchner and Strauss-Kahn.

¶ 18. (C) Subsequent to the meeting, Kirchner -- who tends to personalize institutional relationships -- has privately displayed greater willingness to work with the IMF. The Argentine press has highlighted that Economy Minister Peirano will bring to the annual meetings a message of reconciliation, not hostility, for the first time since Argentina's 2001 default. Economy Ministry contacts confirm other press reports that the GoA delegation will cautiously explore ways to engage with the IMF in the Paris Club process, without submitting to formal IMF conditionality. (Comment: Economy Ministry contacts cite the GoA's recent commitment in writing to contribute to the effort to clear Liberia's arrears to the IMF as further proof of a budding reconciliation between the GoA and IMF. End Comment.)

¶9. (C) GoA officials pushed an ambitious timeline for resolution of the Paris Club situation during the UNGA meetings in September. A prime example was Foreign Minister Taiana's request to Secretary Rice for assistance with completing a Paris Club deal before the next government takes office on December 10. In contrast, Peirano's delegation heads to Washington with modest expectations of continuing low-profile discussions and clarifying aspects of GoA arguments. For example, Peirano's staff will provide Treasury an outline of Argentina's financing constraints, which inhibit the GoA's capacity to pay down Paris Club arrears -- at least all at once.

GoA Interest in World Bank SAL

¶10. (C) According to new World Bank Country Director in Argentina, Pedro Alba, the GoA has informally expressed interest in having the Bank resume fast-disbursing structural adjustment (budget-support) loans. GoA officials are aware that this would require IMF written endorsement of the lending program, and Alba reportedly responded that reaching an agreement with the Paris Club would also help with negotiating a structural adjustment lending program. It is possible that the GoA delegation will continue informal talks along these lines while in Washington. Alba commented that the only feasible World Bank adjustment lending program would include GoA commitments to eliminate price distortions, improve both fiscal and monetary policies, and repair the statistical agency.

Comment

¶11. (C) According to Post's GoA contacts, Peirano believes that he has the inside track on being named Economy Minister under a Cristina Fernandez de Kirchner administration, so long as he avoids making egregious public mistakes between

BUENOS AIR 00002059 003 OF 003

now and December 10, when the next administration takes office. From his perspective, therefore, the timing of the IMF/World Bank meetings is unfortunate. It offers numerous opportunities for Argentine press correspondents to embarrass him just one week prior to the elections. His advisors note that Peirano's worst-case scenario would be for him to meet with a high-level USG or other G-7 official, who then responded publicly to press questions by criticizing GoA economic policies (similar to De Rato's recent comments about high inflation). This would likely end Peirano's political career. Therefore, while Peirano and Redrado will participate in the debate on IMF reforms, Post does not believe the GoA delegation will engage on any Argentina-specific issues, such as Paris Club, holdout bondholders, ICSID cases, or post-election economic reforms.

End Comment

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